FISCAL YEAR ENDED: 12 / 31 / 13

ANNUAL REPORT CHECKLIST

PROVIDER(S): Varenna at Fountaingrove

CCRC(S): Varenna at Fountaingrove

RECEIVED
APR 30 2014
CONTINUING CARE CONTRACTS BRANCH

CONTACT PERSON: Joseph G. Lin

TELEPHONE NO.: (707) 535-3288 **EMAIL:** ____________

● ●

A complete annual report must consist of *3 copies* of all of the following:

☑ Annual Report Checklist.

☑ Annual Provider Fee in the amount of: $ 11,938.00

- ☐ If applicable, late fee in the amount of: $__________

☑ Certification by the provider's ***Chief Executive Officer*** that:
- ☐ The reports are correct to the best of his/her knowledge.
- ☐ Each continuing care contract form in use or offered to new residents has been approved by the Department.
- ☐ The provider is maintaining the required *liquid* reserves and, when applicable, the required refund reserve.

☑ Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.

☑ Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.

☑ Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.

☑ Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for ***each*** community.

☑ Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report, but may be submitted at the same time as the annual report.

Oakmont
Senior Living

RECEIVED
APR 30 2014
CONTINUING CARE
CONTRACTS BRANCH

April 28, 2014

Continuing Care Contracts Branch
California Department of Social Services

To Whom It May Concern:

I, William P Gallaher, certify that the annual audit, reports and any amendments thereto submitted for December 31, 2014 for Varenna at Fountaingrove LLC / Varenna LLC are true and correct to the best of my knowledge.

Varenna at Fountaingrove continuing care contract form in use or offered to new residents has been approved by the Department of Social Services.

Varenna at Fountaingrove is maintaining the required liquid reserve.

Varenna at Fountaingrove does not offer refundable Contracts.

Sincerely,

William P Gallaher
Varenna at Fountaingrove LLC / Varenna LLC
Managing Member

Client#: 139723 OAKMMANA

ACORD™ CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 04/24/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

RECEIVED APR 30 2014 CONTINUING CARE CONTRACTS BRANCH

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER
Propel Insurance
Tacoma Commercial Insurance
1201 Pacific Ave, Suite 1000
Tacoma, WA 98402

CONTACT NAME: Karen Robinson
PHONE (A/C, No, Ext): 800 499-0933 FAX (A/C, No): 866.577.1326
E-MAIL ADDRESS:

INSURED
Oakmont Management Group, LLC
220 Concourse Blvd.
Santa Rosa, CA 95403

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : Columbia Casualty Company	31127
INSURER B : American Casualty Co of Reading	
INSURER C :	
INSURER D :	
INSURER E :	
INSURER F :	

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	GENERAL LIABILITY			4022802553	08/04/2013	05/01/2014	EACH OCCURRENCE	$1,000,000
	X COMMERCIAL GENERAL LIABILITY						DAMAGE TO RENTED PREMISES (Ea occurrence)	$100,000
	CLAIMS-MADE X OCCUR						MED EXP (Any one person)	$5,000
							PERSONAL & ADV INJURY	$1,000,000
							GENERAL AGGREGATE	$3,000,000
	GEN'L AGGREGATE LIMIT APPLIES PER:						PRODUCTS - COMP/OP AGG	$3,000,000
	X POLICY PRO-JECT LOC						Prof. Liab.	$$1mm/$3mm
B	AUTOMOBILE LIABILITY			4022802522	08/04/2013	05/01/2014	COMBINED SINGLE LIMIT (Ea accident)	$1,000,000
	X ANY AUTO						BODILY INJURY (Per person)	$
	X ALL OWNED AUTOS X SCHEDULED AUTOS						BODILY INJURY (Per accident)	$
	X HIRED AUTOS X NON-OWNED AUTOS						PROPERTY DAMAGE (Per accident)	$
	X $1,000 Comp X $1,000 Coll							$
A	X UMBRELLA LIAB X OCCUR			4022802536	08/04/2013	05/01/2014	EACH OCCURRENCE	$10,000,000
	EXCESS LIAB CLAIMS-MADE						AGGREGATE	$10,000,000
	DED X RETENTION $$10,000							$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A					WC STATU-TORY LIMITS / OTH-ER	
							E.L. EACH ACCIDENT	$
							E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMIT	$

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

Named Insureds Continued:
Varenna, LLC
Varenna at Fountaingrove, LLC
1401 Fountaingrove Pkwy., Santa Rosa CA 95403

CERTIFICATE HOLDER

Evidence of Insurance

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

Teresa Grady Mann

RECEIVED
APR 30 2014
CONTINUING CARE
CONTRACTS BRANCH

Report of Independent Auditors and
Consolidated Financial Statements with
Consolidating Information

Varenna at Fountaingrove LLC and Subsidiaries

December 31, 2013 and 2012

CONTENTS

WWW.MOSSADAMS.COM
3700 Old Redwood Highway, Suite 200
Santa Rosa, CA 95403
T (707) 527-0800 F (707) 575-1712

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

REPORT OF INDEPENDENT AUDITORS

To the Members
Varenna at Fountaingrove LLC and Subsidiaries

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Varenna at Fountaingrove LLC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and changes in members' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Varenna at Fountaingrove LLC and Subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the consolidated financial statements, as of December 31, 2013, and for all years presented, the Company adopted new accounting guidance that reflects changes to the presentation of deferred revenue from entrance fees and related amortization in accordance with Financial Accounting Standards Board Accounting Standard Update No. 2012-01, *Health Care Entities (Topic 954); Continuing Care Retirement Communities – Refundable Advance Fees.* Our opinion is not modified with respect to this matter.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2013 consolidating information presented on pages 13 through 16 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Santa Rosa, California
April 29, 2014

CONSOLIDATED FINANCIAL STATEMENTS

	2013	2012 (As Restated)
ASSETS		
Cash and cash equivalents	$ 10,373,100	$ 11,930,900
Restricted cash	2,407,500	1,040,300
Accounts receivable and other assets	416,100	239,400
Due from related parties	2,279,600	3,120,000
Deferred financing related costs, net	1,311,800	1,513,200
Investment in real estate		
Buildings and improvements	91,103,200	91,043,700
Land	3,836,000	3,836,000
Furniture, fixtures, and equipment	5,837,500	5,751,600
Accumulated depreciation	(21,930,900)	(18,069,000)
Total investment in real estate, net	78,845,800	82,562,300
Total assets	$ 95,633,900	$ 100,406,100
LIABILITIES AND MEMBERS' DEFICIT		
Accounts payable and accrued liabilities	$ 1,303,300	$ 1,120,500
Accrued interest	3,000	3,900
Deferred revenue	185,100	256,400
Due to related parties	2,060,200	326,800
Deferred rent	315,100	-
Entrance fees subject to refund	84,243,300	82,075,900
Entrance fees non-refundable	12,776,300	13,284,300
Debt obligations	57,899,400	57,932,400
Total liabilities	158,785,700	155,000,200
Members' deficit	(63,151,800)	(54,594,100)
Total liabilities and members' deficit	$ 95,633,900	$ 100,406,100

See accompanying notes.

	2013	2012 (As Restated)
REVENUE		
Continuing care contracts	$ 10,524,000	$ 10,079,700
Non-continuing care contracts	5,031,600	4,935,000
Total revenue	15,555,600	15,014,700
OPERATING EXPENSES		
Continuing care contracts operating expenses	7,517,900	6,948,600
Non-continuing care contracts operating expenses	2,745,500	2,613,000
Management fees	958,800	949,500
General and administrative	466,700	508,800
Letter of credit fees	1,634,000	1,512,100
Depreciation	3,861,900	4,290,000
Facility lease	2,075,200	300,000
Total operating expenses	19,260,000	17,122,000
LOSS FROM CONTINUING OPERATIONS	(3,704,400)	(2,107,300)
OTHER INCOME (EXPENSE)		
Interest income	11,200	19,600
Miscellaneous	12,300	3,700
Amortization of deferred financing related costs	(208,800)	(444,800)
Interest expense	(228,200)	(266,900)
NET LOSS	(4,117,900)	(2,795,700)
MEMBERS' DEFICIT, beginning of year	(54,594,100)	(51,394,100)
CONTRIBUTIONS	32,487,500	15,398,400
DISTRIBUTION OF MEMBERS' DEFICIT IN VILLA CAPRI PROPERTY	-	5,243,900
DISTRIBUTIONS	(36,927,300)	(21,046,600)
MEMBERS' DEFICIT, end of year	$ (63,151,800)	$ (54,594,100)

See accompanying notes.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from continuing care contracts	$ 8,643,900	$ 8,418,100
Cash received from entrance fees	11,291,900	9,781,800
Cash received from non-continuing care contracts	5,036,900	4,936,700
Cash received from (paid to) affiliates, net	2,573,800	(2,836,500)
Cash paid to employees and suppliers	(10,588,500)	(10,030,500)
Cash paid for management fees	(958,800)	(949,500)
Cash paid for letter of credit fees	(1,634,000)	(1,512,100)
Cash paid for facility lease	(1,760,100)	(300,000)
Interest received	11,200	19,600
Interest paid	(229,100)	(265,300)
Miscellaneous receipts	12,300	3,700
Net cash from operating activities	12,399,500	7,266,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in real estate	(145,400)	(89,300)
Net cash from investing activities	(145,400)	(89,300)
CASH FLOWS FROM FINANCING ACTIVITIES		
Refunds of entrance fees	(8,085,000)	(7,575,700)
Proceeds from debt obligations	-	8,765,000
Payments made on debt obligations	(33,000)	(5,645,000)
Change in restricted cash	(1,246,700)	(235,000)
Member contributions	32,487,500	15,398,400
Member distributions	(36,927,300)	(20,608,800)
Deferred financing related costs	(7,400)	(486,100)
Net cash from financing activities	(13,811,900)	(10,387,200)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,557,800)	(3,210,500)
CASH AND CASH EQUIVALENTS, beginning of year	11,930,900	15,141,400
CASH AND CASH EQUIVALENTS, end of year	$ 10,373,100	$ 11,930,900
RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING EXPENSES		
Net loss	$ (4,117,900)	$ (2,795,700)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation	3,861,900	4,290,000
Amortization of deferred financing related costs	208,800	444,800
Amortization of entrance fees non-refundable	(1,670,900)	(1,696,700)
Changes in:		
Restricted cash	(120,500)	(80,600)
Accounts receivable and other assets	(176,700)	(93,100)
Due from related parties	840,400	(3,120,000)
Accounts payable and accrued liabilities	182,800	149,500
Accrued interest	(900)	1,600
Deferred revenue	(71,300)	38,500
Due to related parties	1,733,400	283,500
Deferred rent	315,100	-
Entrance fees	11,415,300	9,844,200
Net cash from operating activities	$ 12,399,500	$ 7,266,000

See accompanying notes.

	2013	2012
SUPPLEMENTAL CASH-FLOW INFORMATION		
Noncash investing and financing activities:		
Distribution of members' deficit in Villa Capri Property		
Deferred financing costs	$ -	$ 646,100
Investment in real estate, net	$ -	$ 14,260,000
Debt obligations	$ -	$ (20,150,000)
Members' deficit	$ -	$ 5,243,900
Distributions payable to members included in accounts payable and accrued liabilities	$ -	$ 437,800

See accompanying notes.

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of operations – Varenna at Fountaingrove LLC (the Company) was formed on April 12, 2004, as a California limited liability company. The Company's purpose is to develop, operate, lease, and own apartments and a continuing care retirement community, located in Santa Rosa, California (Varenna).

Basis of accounting and principles of consolidation – The consolidated financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company, Varenna LLC, Varenna Apartments LLC, and Varenna Assisted Living LLC and Subsidiary. All significant transactions between these entities have been eliminated.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of risk – Financial instruments potentially subjecting the Company to concentrations of credit risk consist primarily of demand deposits and other cash accounts (including restricted amounts) that may be in excess of Federal Deposit Insurance Corporation insured limits.

Cash and cash equivalents – The Company considers all highly-liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Restricted cash – Restricted cash consists of accounts used as collateral as required by one of the Company's lenders.

Investment in real estate – Investment in real estate is recorded at cost and includes interest and property taxes capitalized on long-term construction projects during the construction period, as well as other costs directly related to the development and construction of facilities. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and improvements	30 - 40 years
Furniture, fixtures, and equipment	3 - 10 years

The Company reviews its investments in real estate whenever events or changes in circumstances indicate that the cost basis of such assets may not be recoverable. If the cost basis of an investment in real estate is greater than the projected future undiscounted net cash flows (before interest) from that property, an impairment loss is recognized. Impairment losses are calculated as the difference between the property's cost basis and its estimated fair value. No such impairment losses have been recognized to date. An investment in real estate held for sale is carried at the lower of its carrying amount or estimated fair value less costs to sell. The Company considers investment in real estate held for sale when the property is being actively marketed for sale, and expects it to sell within one year. This property was not held for sale at December 31, 2013 or 2012.

Accounts receivable and other assets – Accounts receivable and other assets consist of receivables from tenants, deposits, and prepaid expenses. Management regularly monitors and adjusts its reserves and allowances related to these receivables. Accounts deemed to be uncollectible are written-off only after all reasonable collection efforts are exhausted. There was no allowance recorded for accounts receivable at December 31, 2013 and 2012.

Deferred financing related costs – Costs incurred in connection with obtaining financing have been deferred and are amortized over the term of the associated indebtedness on the straight-line method, which approximates the effective-interest method.

Interest rate cap – The Company entered into an interest rate cap agreement associated with its borrowings as disclosed in Note 3. An interest rate cap is considered a derivative financial instrument in accordance with accounting standards that require every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the consolidated balance sheets as either an asset or liability measured at its estimated fair value. The accounting standards also require that changes in the derivative's fair value be recognized currently in consolidated earnings unless specific hedge accounting criteria are met. The only derivative used by the Company is the interest rate cap with changes in its fair-market value recorded as a component of interest expense. As of December 31, 2013 and 2012, management has determined the difference between the carrying value and the fair-market value of the derivative to be immaterial.

Revenue recognition – Resident fee revenue, presented as continuing care and non-continuing care contracts, is recorded when services are rendered and consists of fees for basic housing, support services, and fees associated with additional services, such as personalized health and assisted living care. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly in advance. Revenues for certain care services provided are also charged in advance. Additional ancillary charges are billed monthly in arrears. As of December 31, 2013 and 2012, $185,100 and $256,400 respectively has been recorded in deferred revenue related to fees paid by applicants prior to occupancy.

Residents pay an entrance fee to occupy a unit and pay monthly fees for housing, food, and services. The Company has residency agreements that require the resident to pay an upfront entrance fee prior to joining the community that is 100% refundable within 90 days of occupancy. After the initial 90 days of occupancy, the entrance fees are a combination of refundable and non-refundable in accordance with the terms of the contracts. The non-refundable portion of the entrance fees are recorded as entrance fee non-refundable liability and amortized over the estimated stay of the resident based on an actuarial valuation. The refundable portion of a resident's entrance fee are refundable upon the resale of the unit and is recorded as a liability on the consolidated balance sheets.

Certain contracts require the refundable portion of the entrance fee to be refunded only upon resale of the unit (contingently refundable). Upon resale, the Company may receive re-occupancy proceeds in the form of additional contingently refundable fees, refundable fees, or non-refundable fees.

Entrance fees non-refundable, amortized over the estimated stay of the resident, was approximately $12,776,300 and $13,284,300 at December 31, 2013 and 2012, respectively. Entrance fees subject to refund at December 31, 2013 and 2012, were $84,243,300 and $82,075,900, respectively. It is management's expectation that future refunds will not have a significant effect on the consolidated financial statements.

Revenue recognized from amortization of entrance fees non-refundable totaled $1,670,900 and $1,696,700 for the years ended December 31, 2013 and 2012, respectively.

The Company's operations also include leasing apartment units. Rental income is recognized on a straight-line basis over the lives of the related leases when collectability is reasonably assured. The lease terms are generally for periods of one year or less. Any difference between the rental revenue recognized and amounts due under the respective lease agreements with terms in excess of one year is recorded as deferred rent receivable. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

Income taxes – The Company is taxed as a partnership for federal and state purposes. As a partnership, all federal and state income tax liability flows through to the Company's members. No provision for income taxes is included in the accompanying consolidated financial statements.

The Company follows the accounting standard related to accounting for uncertain tax positions. The standard prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters, such as derecognition, interest, penalties, and disclosures required. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and the State of California. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return. The Company recognizes interest and penalties related to income tax matters in operating expenses.

Obligation to provide future services – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. The Company has determined that no accrual for the obligation to provide future services and use of facilities to current residents was required at December 31, 2013 and 2012. The discount rate used to calculate the obligation to provide future services is 5%.

Statutory cash reserve requirements – The Company is subject to statutory cash reserve requirements. At December 31, 2013 and 2012, the Company's reserves were in excess of such requirements by $4,608,700 and $8,509,900, respectively, as calculated in accordance with the Continuing Care Contract Statutes of the California Health and Safety Code.

New accounting pronouncements – Effective January 1, 2013, the Company early adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2012-01, *Health Care Entities (Topic 954): Continuing Care Retirement Communities – Refundable Advance Fees* (ASU No. 2012-01), which has resulted in the establishment of a liability for entrance fees for amounts which were previously presented as deferred revenue and amortized into revenue over the life of the facility. Using this new accounting standard, the refundable entrance fees due can no longer be used to reduce the obligation to provide future services. In accordance with FASB ASC Topic 250, *Accounting Changes and Error Corrections*, these consolidated financial statements present the adoption of ASU No. 2012-01 as a change in accounting principle, and accordingly, the 2012 consolidated financial statements presented herein have been adjusted to apply the new accounting method retrospectively as follows:

	As of December 31, 2013, and For the Year Then Ended		
	As previously Reported	Adjustment	As Adjusted
Total members' deficit, beginning of year	$ (41,322,800)	$ (10,071,300)	$ (51,394,100)
Total members' deficit, end of year	$ (42,256,200)	$ (12,337,900)	$ (54,594,100)
Entrance fees subject to refund	$ -	$ 82,075,900	$ 82,075,900
Entrance fees non-refundable	$ 83,022,300	$ (69,738,000)	$ 13,284,300
Total revenue	$ 17,281,300	$ (2,266,600)	$ 15,014,700
Net loss	$ (529,100)	$ (2,266,600)	$ (2,795,700)
Amortization of entrance fees non-refundable	$ (3,963,300)	$ 2,266,600	$ (1,696,700)

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet, but arose after the consolidated balance sheet date and before the consolidated financial statements were available to be issued.

The Company has evaluated subsequent events through April 29, 2014, which is the date the consolidated financial statements were available to be issued, in accordance with the Company's policy related to disclosures of subsequent events, and has not identified any material events that should be disclosed.

NOTE 2 – FAIR VALUE MEASUREMENTS

The Company adopted accounting standards for fair value measurements for all financial instruments accounted for at fair value on a recurring basis. The accounting standards establish a framework for measuring fair value and expand related disclosures. Broadly, this framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The standard establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The valuation techniques required by the standard are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. The three levels of inputs used to establish fair-value are as follows:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drives are observable.

Level 3: Significant inputs to the valuation model that are unobservable.

As of December 31, 2013 and 2012, the Company had no material balances recorded at fair value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents – The carrying amount approximates fair value because of the short term maturity of those instruments.

Debt obligations – The fair value of the Company's debt obligations is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The estimated fair values of the Company's debt obligations approximate the carrying values at December 31, 2013 and 2012.

NOTE 3 – DEBT OBLIGATIONS

The following is a listing of debt obligations that were outstanding at December 31:

	2013	2012
Varenna LLC Taxable Variable Rate Demand Senior Living Facility Revenue Bonds (Varenna at Fountaingrove Project); 2011 Series A; bearing interest at a variable rate (0.21% at December 31, 2013 and 2012, respectively) payable monthly; maturing December 2051; these bonds are secured by letters of credit maturing on December 2021; guaranteed by a member and spouse of Oakmont Senior Living LLC	$ 56,000,000	$ 56,000,000
Amortizing income property note payable to a financial institution; commitment of $1,425,000; bearing interest at a variable interest rate not to exceed 10.75% or go below 5.2% (5.2% at December 31, 2013 and 2012). Principal and interest payable monthly; maturing July 2039; 100% guaranteed by the majority member of Oakmont Senior Living LLC	1,325,100	1,349,400
Loan payable to a financial institution; commitment of $605,000; bearing interest at 8% payable monthly; maturing June 2014; 100% guaranteed by the majority member of Oakmont Senior Living LLC	574,300	583,000
	$ 57,899,400	$ 57,932,400

The bonds are payable from, and secured solely by, the revenues pledged under the bond indenture agreements, including amounts drawn under bank letters of credit to pay the principal, purchase price, and interest on the bonds. The letters of credit for the bonds expire in December 2021.

All debt obligations are secured by deeds of trust on the investment in real estate. Interest costs, including amortization of deferred financing related costs, incurred totaled $437,000 and $711,700 in 2013 and 2012, respectively.

The loan agreements contain general affirmative and negative covenants that include provisions for the upkeep of the property, maintenance, insurance, compliance with laws, and financial reporting requirements. Many agreements include restrictions on certain transactions and changes in capital structure. Management believes the Company is in compliance with these covenants.

Future minimum principal payments due under the debt obligations subsequent to December 31, 2013, are as follows:

Year Ending December 31,		
2014	$	599,025
2015		26,100
2016		27,500
2017		29,100
2018		30,700
Thereafter		57,186,975
	$	57,899,400

NOTE 4 – RELATED-PARTY TRANSACTIONS

As of December 31, 2013 and 2012, the Company had amounts due from related parties of $2,279,600 and $3,120,000, respectively. As of December 31, 2013 and 2012, the Company had amounts due to related parties of $2,060,200 and $326,800, respectively. These balances are noninterest bearing and due on demand.

Pursuant to asset management agreements between the Company and affiliated entities, the Company is obligated to pay annual asset management fees. For the years ended December 31, 2013 and 2012, asset management fees in the amount of $130,500 and $198,000 were incurred, respectively, and are included in management fees in the accompanying consolidated statements of operations.

The Company's majority member has a controlling financial interest in a financial institution. As of December 31, 2013 and 2012, the Company had cash deposits with this financial institution of $6,665,300 and $5,786,600, respectively, and had outstanding debt obligations due to this financial institution of $574,300 and $583,000, respectively, (see Note 3). For the years ended December 31, 2013 and 2012, the Company paid interest of $34,700 and $47,000, respectively, to this financial institution.

NOTE 5 – MEMBERS' DEFICIT

The liability of each member of the Company is limited to the amount of such member's contributed capital. The Company will cease to exist on January 30, 2051, unless it is dissolved at an earlier date in accordance with the operating agreement.

NOTE 6 – COMMITMENTS

The Company entered into a long-term noncancelable operating lease to operate assisted living facilities with an initial lease term of 15 years, with renewal options of three successive extension terms of four years each, and expiration date through October 2032. Operating lease rent expense is recorded on the straight-line basis and amounted to $2,075,200 and $300,000 for the years ended December 31, 2013 and 2012, respectively. Deferred rent liability was $315,000 and $0 at December 31, 2013 and 2012, respectively.

Future minimum lease payments under these operating lease agreements in effect as of December 31, 2013, are as follows:

Year Ending December 31,		
2014	$	1,842,100
2015		1,879,000
2016		1,916,500
2017		1,954,900
2018		1,994,000
Thereafter		19,435,700
	$	29,022,200

NOTE 7 – CONTINGENCIES

Environmental matters – The Company is not aware of any environmental liability with respect to the property that would have a material adverse effect on the Company's business, consolidated assets, or consolidated results of operations. There can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability could have an adverse effect on the Company's consolidated results of operations.

Litigation – The Company may be involved, from time-to-time, in legal actions relating to the ownership and operations of its property. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

CONSOLIDATING INFORMATION

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
December 31, 2013

	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Total	Eliminating Entries	Consolidated Total
ASSETS							
Cash and cash equivalents	$ 600	$ 716,800	$ 4,700	$ 9,651,000	$ 10,373,100	$ -	$ 10,373,100
Restricted cash	-	417,300	-	1,990,200	2,407,500	-	2,407,500
Accounts receivable and other assets	83,400	38,100	3,200	291,400	416,100	-	416,100
Due from related parties	-	11,480,900	-	24,288,900	35,769,800	(33,490,200)	2,279,600
Deferred financing related costs, net	-	-	22,800	1,289,000	1,311,800	-	1,311,800
Investment in subsidiaries	(24,985,300)	-	-	-	(24,985,300)	24,985,300	-
Investment in real estate					-		
Buildings and improvements	-	18,200	5,285,800	85,799,200	91,103,200	-	91,103,200
Land	-	-	71,000	3,765,000	3,836,000	-	3,836,000
Furniture, fixtures, and equipment	-	1,134,400	53,500	4,649,600	5,837,500	-	5,837,500
Accumulated depreciation	-	(1,016,700)	(1,200,700)	(19,713,500)	(21,930,900)	-	(21,930,900)
Total investment in real estate, net	-	135,900	4,209,600	74,500,300	78,845,800	-	78,845,800
Total assets	$ (24,901,300)	$ 12,789,000	$ 4,240,300	$ 112,010,800	$ 104,138,800	$ (8,504,900)	$ 95,633,900
LIABILITIES AND MEMBERS' EQUITY (DEFICIT)							
Accounts payable and accrued liabilities	$ 2,500	$ 253,800	$ 10,900	$ 1,036,100	$ 1,303,300	$ -	$ 1,303,300
Accrued interest	-	-	3,000	-	3,000	-	3,000
Deferred revenue	-	66,600	14,000	104,500	185,100	-	185,100
Due to related parties	-	10,601,100	-	24,949,300	35,550,400	(33,490,200)	2,060,200
Deferred rent	-	315,100	-	-	315,100		315,100
Entrance fees subject to refund				84,243,300	84,243,300		84,243,300
Entrance fees non-refundable	-	-	-	12,776,300	12,776,300	-	12,776,300
Debt obligations	-	-	1,899,400	56,000,000	57,899,400	-	57,899,400
Total liabilities	2,500	11,236,600	1,927,300	179,109,500	192,275,900	(33,490,200)	158,785,700
Members' equity (deficit)	(24,903,800)	1,552,400	2,313,000	(67,098,700)	(88,137,100)	24,985,300	(63,151,800)
Total liabilities and members' equity (deficit)	$ (24,901,300)	$ 12,789,000	$ 4,240,300	$ 112,010,800	$ 104,138,800	$ (8,504,900)	$ 95,633,900

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF OPERATIONS
Year Ended December 31, 2013

	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Total	Eliminating Entries	Consolidated Total
REVENUE							
Continuing care contracts	$ -	$ -	$ -	$ 10,524,000	$ 10,524,000	$ -	$ 10,524,000
Non-continuing care contracts	-	4,809,700	221,900	-	5,031,600	-	5,031,600
Total revenue	-	4,809,700	221,900	10,524,000	15,555,600	-	15,555,600
OPERATING EXPENSES							
Continuing care contracts operating expenses	-	-	-	7,517,900	7,517,900	-	7,517,900
Non-continuing care contracts operating expenses	-	2,745,500	-	-	2,745,500	-	2,745,500
Management fees	30,000	340,200	4,500	584,100	958,800	-	958,800
General and administrative	12,600	91,600	83,100	279,400	466,700	-	466,700
Letter of credit fees	-	414,600	-	1,219,400	1,634,000	-	1,634,000
Depreciation	-	143,800	183,700	3,534,400	3,861,900	-	3,861,900
Facility Lease	-	2,075,200	-	-	2,075,200	-	2,075,200
Total operating expenses	42,600	5,810,900	271,300	13,135,200	19,260,000	-	19,260,000
LOSS FROM CONTINUING OPERATIONS	(42,600)	(1,001,200)	(49,400)	(2,611,200)	(3,704,400)	-	(3,704,400)
OTHER INCOME (EXPENSE)							
Interest income	-	1,600	-	9,600	11,200	-	11,200
Miscellaneous	-	-	1,700	10,600	12,300	-	12,300
Amortization of deferred financing related costs	-	-	(6,400)	(202,400)	(208,800)	-	(208,800)
Interest expense	-	(25,900)	(106,700)	(95,600)	(228,200)	-	(228,200)
NET LOSS	$ (42,600)	$ (1,025,500)	$ (160,800)	$ (2,889,000)	$ (4,117,900)	$ -	$ (4,117,900)

	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Total	Eliminating Entries	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from continuing care contracts	$ -	$ -	$ -	$ 8,643,900	$ 8,643,900	$ -	$ 8,643,900
Cash received from entrance fees	-	-	-	11,291,900	11,291,900	-	11,291,900
Cash received from non-continuing care contracts	-	4,814,400	222,500	-	5,036,900	-	5,036,900
Cash received from (paid to) affiliates, net	-	2,193,800	-	380,000	2,573,800	-	2,573,800
Cash paid to employees and suppliers	(533,800)	(2,817,700)	(82,200)	(7,154,800)	(10,588,500)	-	(10,588,500)
Cash paid for management fees	(30,000)	(340,200)	(4,500)	(584,100)	(958,800)	-	(958,800)
Cash paid for letter of credit fees	-	(414,600)	-	(1,219,400)	(1,634,000)	-	(1,634,000)
Cash paid for facility lease	-	(1,760,100)	-	-	(1,760,100)	-	(1,760,100)
Interest received	-	1,600	-	9,600	11,200	-	11,200
Interest paid	-	(25,900)	(107,600)	(95,600)	(229,100)	-	(229,100)
Miscellaneous receipts	-	-	1,700	10,600	12,300	-	12,300
Net cash from operating activities	(563,800)	1,651,300	29,900	11,282,100	12,399,500	-	12,399,500
CASH FLOWS FROM INVESTING ACTIVITIES							
Investment in real estate	-	(18,100)	(2,000)	(125,300)	(145,400)	-	(145,400)
Receipts from investment in subsidiary	5,003,300	-	-	-	5,003,300	(5,003,300)	-
Net cash from investing activities	5,003,300	(18,100)	(2,000)	(125,300)	4,857,900	(5,003,300)	(145,400)
CASH FLOWS FROM FINANCING ACTIVITIES							
Refunds of entrance fees	-	-	-	(8,085,000)	(8,085,000)	-	(8,085,000)
Payments on debt obligations	-	-	(33,000)	-	(33,000)	-	(33,000)
Change in restricted cash	-	(329,600)	-	(917,100)	(1,246,700)	-	(1,246,700)
Member contributions	32,487,600	484,100	111,500	31,236,700	64,319,900	(31,832,400)	32,487,500
Member distributions	(36,927,500)	(1,518,000)	(100,100)	(35,217,400)	(73,763,000)	36,835,700	(36,927,300)
Deferred financing related costs	-	-	(7,400)	-	(7,400)	-	(7,400)
Net cash from financing activities	(4,439,900)	(1,363,500)	(29,000)	(12,982,800)	(18,815,200)	5,003,300	(13,811,900)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(400)	269,700	(1,100)	(1,826,000)	(1,557,800)	-	(1,557,800)
CASH AND CASH EQUIVALENTS, beginning of year	1,000	447,100	5,800	11,477,000	11,930,900	-	11,930,900
CASH AND CASH EQUIVALENTS, end of year	$ 600	$ 716,800	$ 4,700	$ 9,651,000	$ 10,373,100	$ -	$ 10,373,100

	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Total	Eliminating Entries	Consolidated Total
RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING EXPENSES							
Net loss	$ (42,600)	$ (1,025,500)	$ (160,800)	$ (2,889,000)	$ (4,117,900)	$ -	$ (4,117,900)
Adjustments to reconcile net loss to net cash from operating activities:							
Depreciation	-	143,800	183,700	3,534,400	3,861,900	-	3,861,900
Amortization of deferred financing related costs	-	-	6,400	202,400	208,800	-	208,800
Amortization of entrance fees non-refundable	-	-	-	(1,670,900)	(1,670,900)	-	(1,670,900)
Changes in:							
Restricted cash	-	2,900	-	(123,400)	(120,500)	-	(120,500)
Accounts receivable and other current assets	(83,400)	11,800	300	(105,400)	(176,700)	-	(176,700)
Due from related parties	-	(886,300)	-	(2,015,900)	(2,902,200)	3,742,600	840,400
Accounts payable and accrued liabilities	(437,800)	5,100	700	614,800	182,800	-	182,800
Accrued interest	-	-	(900)	-	(900)	-	(900)
Deferred revenue	-	4,300	500	(76,100)	(71,300)	-	(71,300)
Due to related parties	-	3,080,100	-	2,395,900	5,476,000	(3,742,600)	1,733,400
Deferred rent	-	315,100	-	-	315,100	-	315,100
Entrance fees	-	-	-	11,415,300	11,415,300	-	11,415,300
Net cash from operating activities	$ (563,800)	$ 1,651,300	$ 29,900	$ 11,282,100	$ 12,399,500	$ -	$ 12,399,500

RECEIVED
APR 30 2014
CONTINUING CARE
CONTRACTS BRANCH

Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Varenna at Fountaingrove LLC and Subsidiaries

As of and for the year ended December 31, 2013

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

RECEIVED
APR 30 2014
CONTINUING CARE
CONTRACTS BRANCH

REPORT OF INDEPENDENT AUDITORS

To the Members
Varenna at Fountaingrove LLC and Subsidiaries

Report on Financial Statements

We have audited the accompanying financial statements of Varenna at Fountaingrove LLC and Subsidiaries (the Company), which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5 as of and for the year ended December 31, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the continuing care reserve of Varenna at Fountaingrove LLC and Subsidiaries as of and for the year ended December 31, 2013, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	219
[2]	Number at end of fiscal year	217
[3]	Total Lines 1 and 2	436
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	218
	All Residents	
[6]	Number at beginning of fiscal year	285
[7]	Number at end of fiscal year	285
[8]	Total Lines 6 and 7	570
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	285
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	0.76

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)		$19,697,000
[a]	Depreciation	$3,861,900	
[b]	Debt Service (Interest Only)	$228,200	
[2]	Subtotal (add Line 1a and 1b)		$4,090,100
[3]	Subtract Line 2 from Line 1 and enter result.		$15,606,900
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		76%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$11,937,909
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		$11,938

PROVIDE Varenna at Fountaingrove LLC / Varenna LLC
COMMUN Varenna at Fountaingrove

CONTINUING CARE LIQUID RESERVE SCHEDULES

FORM 5-1
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	03/16/06	$0	$25,900	$414,600	$440,500
2	06/05/09	$24,000	$69,700	$0	$93,700
3	06/18/09	$8,700	$37,000	$0	$45,700
4	12/01/11	$0	$95,600	$1,219,400	$1,315,000
5					$0
6					$0
7					$0
8					$0
		TOTAL:	$228,200	$1,634,000	$1,894,900

(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Varenna at Fountaingrove LLC / Varenna LLC

Long-Term Debt Maturing within 24 months

1. First Community Bank loan of $605,000. This loan was extended through June, 2014.

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1					$0
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$0	$0	0	$0

(Transfer this amount to Form 5-3, Line 2)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Varenna at Fountaingrove LLC / Varenna LLC

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$1,894,900
2	Total from Form 5-2 bottom of Column (e)	$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	$2,075,200
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$3,970,100

PROVIDER: Varenna at Fountaingrove LLC / Varenna LLC

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$19,697,000
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$228,200	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$1,634,000	
	c.	Depreciation	$3,861,900	
	d.	Amortization	$208,800	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$5,031,600	
	f.	Extraordinary expenses approved by the Department	$0	
3		Total Deductions		$10,964,500
4		Net Operating Expenses		$8,732,500
5		Divide Line 4 by 365 and enter the result.		$23,925
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$1,794,349

PROVIDER: Varenna at Fountaingrove LLC / Varenna LLC
COMMUNITY: Varenna at Fountaingrove

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Varenna at Fountaingrove LLC / Varenna LLC
Fiscal Year Ended: December 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended December 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2013 are as follows:

		Amount
[1]	Debt Service Reserve Amount	$3,970,100
[2]	Operating Expense Reserve Amount	$1,794,349
[3]	**Total Liquid Reserve Amount:**	$5,764,449

Qualifying assets sufficient to fulfill the above requirements are held as follows:

		Amount (market value at end of quarter)		
	Qualifying Asset Description	**Debt Service Reserve**		**Operating Reserve**
[4]	Cash and Cash Equivalents	$5,186,550		$5,186,550
[5]	Investment Securities			
[6]	Equity Securities			
[7]	Unused/Available Lines of Credit			
[8]	Unused/Available Letters of Credit			
[9]	Debt Service Reserve			(not applicable)
[10]	Other: (describe qualifying asset)			
	Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	$5,186,550	[12]	$5,186,550
	Reserve Obligation Amount: [13]	$3,970,100	[14]	$1,794,349
	Surplus/(Deficiency): [15]	$1,216,450	[16]	$3,392,201

Signature: ______________________
(Authorized Representative)

Date: 4/29/14

William P Gallaher, Manager
(Title)

DSS - Reserve Report - Part of Form 5-5
Description of Reserves under SB 1212

Total Qualifying Assets Listed on Line 4	$	10,373,100	All Cash and Equivalents. No Investments or equities or lines of credit listed.

Please note that there is no restricted cash or equivalents included in the $10,373,100- listed for the liquid reserve requirement. Additionally, the $2,407,500- listed as restricted cash is held by the lender for the Varenna Assisted Living Loan.

Per Capita Cost of Operations

Operating Expenses per form 5-4 #1	$	19,697,000
Mean # of all Residents from form 1-1 #10		285
Per Capita Costs of Operations	$	69,112

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	**$1231 - 6811**	**$2265–7669**	
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	**3.0%**	**3.0%**	

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: **Anniversary Date**
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

☐ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

☐ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

☐ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

☐ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

☐ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

☐ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Varenna at Fountgrove LLC – Varenna LLC
COMMUNITY: Varenna at Fountaingrove

Continuing Care Retirement Community
Disclosure Statement
General Information

Date Prepared: 4/28/14

RECEIVED APR 30 2014 CONTINUING CARE CONTRACTS BRANCH

FACILITY NAME: Varenna at Fountaingrove

ADDRESS: 1307-1505 Fountaingrove Pkwy, Santa Rosa, CA ZIP CODE: 95403 PHONE: 707-526-1226

PROVIDER NAME: Varenna at Fountaingrove FACILITY OPERATOR: Varenna LLC

RELATED FACILITIES: n/a RELIGIOUS AFFILIATION: n/a

YEAR OPENED: 2007 # OF ACRES: 29 ☐ SINGLE STORY ☐ MULTI-STORY ☑ OTHER: both MILES TO SHOPPING CTR: <1 MILES TO HOSPITAL: 1.5

NUMBER OF UNITS:

RESIDENTIAL LIVING		HEALTH CARE	
APARTMENTS – STUDIO:		ASSISTED LIVING:	60
APARTMENTS – 1 BDRM:	6	SKILLED NURSING:	
APARTMENTS – 2 BDRM:	126	SPECIAL CARE:	
COTTAGES/HOUSES:	27	DESCRIBE SPECIAL CARE:	
RLU OCCUPANCY (%) AT YEAR END:	97.00		

TYPE OF OWNERSHIP: ☐ NOT-FOR-PROFIT ☑ FOR- PROFIT ACCREDITED?: ☐ YES ☐ NO BY:

FORM OF CONTRACT: (Check all that apply) ☐ CONTINUING CARE ☐ LIFE CARE ☑ ENTRANCE FEE ☑ FEE FOR SERVICE ☐ ASSIGNMENT OF ASSETS ☐ EQUITY ☐ MEMBERSHIP ☑ RENTAL

REFUND PROVISIONS: (Check all that apply) ☑ 90% ☑ 75% ☑ 50% ☑ PRORATED TO 0% ☑ OTHER: 0 / 100%

RANGE OF ENTRANCE FEES: $ 160,000 TO $ 1,295,000 **LONG-TERM CARE INSURANCE REQUIRED?** ☐ YES ☑ NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: n/a

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: n/a OTHER: Physician's Report

RESIDENT REPRESENTATIVE •O THE BOARD (briefly describe their involvement):

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	☑	☑	HOUSEKEEPING (4-5 TIMES/MONTH)	☑	☐
BILLIARD ROOM	☑	☐	MEALS (1-3 /DAY)	☑	☐
BOWLING GREEN	☑	☐	SPECIAL DIETS AVAILABLE	☑	☐
CARD ROOMS	☑	☐			
CHAPEL	☐	☐	24-HOUR EMERGENCY RESPONSE	☑	☐
COFFEE SHOP	☑	☐	ACTIVITIES PROGRAM	☑	☐
CRAFT ROOMS	☑	☐	ALL UTILITIES EXCEPT PHONE	☑	☐
EXERCISE ROOM	☑	☐	APARTMENT MAINTENANCE	☑	☐
GOLF COURSE ACCESS	☑	☐	CABLE TV	☑	☐
LIBRARY	☑	☐	LINENS FURNISHED	☐	☐
PUTTING GREEN	☐	☐	LINENS LAUNDERED	☑	☐
SHUFFLEBOARD	☑	☐	MEDICATION MANAGEMENT	☑	☑
SPA	☑	☐	NURSING/WELLNESS CLINIC	☑	☐
SWIMMING POOL-INDOOR	☑	☐	PERSONAL HOME CARE	☑	☐
SWIMMING POOL-OUTDOOR	☑	☐	TRANSPORTATION-PERSONAL	☑	☐
TENNIS COURT	☐	☐	TRANSPORTATION-PREARRANGED	☑	☐
WORKSHOP	☑	☐	OTHER	☐	☐
OTHER Theater / Ballroom	☑	☐			

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Varenna at Fountaingrove

CCRCs	LOCATION (City, State)	PHONE (with area code)
Varenna at Fountaingrove	Santa Rosa, CA	707-526-1226

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Varenna at Fountaingrove

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	$11,702,600	$12,955,700	$13,318,000	$13,884,700
LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest)	$11,246,000	$12,193,100	$12,832,000	$15,398,100
NET INCOME FROM OPERATIONS	$456,600	$762,600	$486,000	$1,513,400
LESS INTEREST EXPENSE	-$2,531,200	-$2,752,000	-$266,900	-$228,200
PLUS CONTRIBUTIONS	$10,115,400	$43,795,800	$15,398,400	$32,487,500
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	$64,700	$32,900	$23,300	$23,500
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$81,105,500	$41,839,300	$15,640,800	$30,769,400
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$16,738,100	$1,809,400	$2,206,100	$3,206,900

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
See attached					
spreadsheet					

FINANCIAL RATIOS

(see next page for ratio formulas)

	2012 CCAC Medians 50th Percentile *(optional)*	2011	2012	2013
DEBT TO ASSET RATIO		0.6	0.6	0.6
OPERATING RATIO		0.9	1.0	1.1
DEBT SERVICE COVERAGE RATIO		0.82	1.33	1.36
DAYS CASH-ON-HAND RATIO		453	339	283

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

	2010	%	2011	%	2012	%	2013
STUDIO	$2,982	2.0	$3,041	3.9	$3,161	3.0	$3,256
ONE BEDROOM	$4,242	2.0	$4,327	3.9	$4,496	3.0	4,631.0
TWO BEDROOM	$5,352	2.0	$5,459	3.9	$5,672	3.0	$5,842
COTTAGE/HOUSE	$4,571	4.0	$4,754	4.0	$4,944	3.0	$5,092
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

COMMENTS FROM PROVIDER:

Disclosure Statement Continuation
Description Of Secured Debt

Provider Name: Varenna at Fountaingrove

Lender	Outstanding Balance	Interest Rate	Date of Origination	Date of Maturity	Amortization Period
East West Bank	$ 56,000,000	0.21%	12/25/2011	12/11/2021	10 Years
East West Bank / CSCDA	$ 11,386,000	0.24%	03/01/2006	03/01/2041	35 Years
East West Bank / CSCDA	$ 5,614,000	0.24%	03/01/2006	03/01/2041	35 Years
First Community Bank	$ 574,300	8.00%	06/18/2009	03/01/2014	3 Years 9 Months
Luther Burbank Savings	$ 1,325,100	5.20%	06/05/2009	07/01/2039	30 Years

PROVIDER NAME: Varenna at Fountaingrove

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash \& Investments} + \text{Unrestricted Non-Current Cash \& Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

KEY INDICATORS REPORT

Date Prepared: 5/23/2014

Varenna at Fountaingrove

Joseph G Lin, Chief Financial Officer

RECEIVED MAY 28 2014 CONTINUING CARE CONTRACTS

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

	2008	2009	2010	2011	2012	2013	Forecast 2014	2015	2016	2017	2018	Preferred Trend Indicator
OPERATIONAL STATISTICS												
1. Average Annual Occupancy by Site (%)	58%	75%	90%	98%	94%	95%	96%	96%	96%	96%	96%	N/A
MARGIN (PROFITABILITY) INDICATORS												
2. Net Operating Margin (%)	22.00%	14.00%	19.00%	23.00%	23.00%	21.00%	35.00%	40.00%	45.00%	45.00%	45.00%	↑
3. Net Operating Margin - Adjusted (%)	90.00%	74.00%	67.00%	33.00%	34.00%	36.00%	25.00%	25.00%	25.00%	25.00%	25.00%	↓
LIQUIDITY INDICATORS												
4. Unrestricted Cash and Investments ($000)	$5,658	$16,965	$20,748	$15,141	$11,931	$10,373	$15,000	$15,000	$15,000	$15,000	$15,000	↑
5. Days Cash on Hand (Unrestricted)	184	636	673	453	339	283	450	450	450	450	450	↑
CAPITAL STRUCTURE INDICATORS												
6. Deferred Revenue from Entrance Fees ($000)	$63,237	$77,327	$89,507	$84,717	$83,022	$97,020	$75,000	$72,500	$70,000	$70,000	$70,000	N/A
7. Net Annual E/F proceeds ($000)	$43,720	$23,235	$16,738	$1,809	$2,206	$3,207	$3,000	$3,000	$3,000	$3,000	$3,000	N/A
8. Unrestricted Net Assets ($000)	$126,834	$127,952	$127,393	$118,429	$99,366	$93,226	$125,000	$125,000	$125,000	$125,000	$125,000	N/A
9. Annual Capital Asset Expenditure ($000)	$0	$395	$371	$89	$89	$145	$100	$100	$100	$100	$100	N/A
10. Annual Debt Service Coverage Revenue Basis (x)	-0.56	0.08	0.17	0.25	1.72	-5.71	1.10	1.20	1.30	1.30	1.30	↑
11. Annual Debt Service Coverage (x)	5.75	8.94	5.66	0.82	9.15	6.58	1.5	1.75	2	2	2	↑
12. Annual Debt Service/Revenue (%)	10.00%	10.00%	10.00%	5.00%	1.00%	1.00%	5.00%	5.00%	5.00%	5.00%	5.00%	↓
13. Average Annual Effective Interest Rate (%)	6.00%	4.00%	4.00%	4.00%	0.00%	0.00%	4.00%	4.00%	4.00%	4.00%	4.00%	↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	9.00%	25.00%	31.00%	20.00%	21.00%	18.00%	20.00%	20.00%	20.00%	20.00%	20.00%	↑
15. Average Age of Facility (years)	1.17	1.77	2.72	3.82	4.21	5.68	1.3	1.2	1.1	1.1	1.1	↓

Key Indicators Report

Schedule detailing question 1 - Average Annual Occupancy by Site %

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cardinal Point at Mariner Square	99%	99%	98%	99%	98%	98%	96%	96%	96%	96%	96%
Varenna at Fountaingrove	58%	75%	90%	97%	94%	95%	96%	96%	96%	96%	96%
Aegis of Chino Hills	86%	86%	89%	93%	92%	98%	96%	96%	96%	96%	96%
Aegis of Escondido	87%	82%	85%	96%	96%	94%	96%	96%	96%	96%	96%
Aegis of Concord	94%	88%	80%	92%	96%	97%	96%	96%	96%	96%	96%
Segovia of Palm Desert			22%	73%	83%	96%	96%	96%	96%	96%	96%
Capriana Operations						34%	80%	95%	95%	95%	95%
Fountaingrove Lodge						14%	50%	75%	95%	95%	95%